

CERF



COUNTY EMPLOYEES' RETIREMENT FUND

## **Summary Annual Report**

For the Fiscal Year Ending December 31, 2006

Helping you build a brighter tomorrow

# COUNTY EMPLOYEES' RETIREMENT FUND

## CERF Pension Plan Information

CERF Administrative Office  
2121 Schotthill Woods Drive  
Jefferson City, MO 65101

Telephone: (573) 632-9203  
Toll-Free: (877) 632-2373  
Facsimile: (573) 761-4404  
Website: [www.mocerf.org](http://www.mocerf.org)  
E-mail: [admin@mocerf.org](mailto:admin@mocerf.org)

## CERF Savings Plan Information

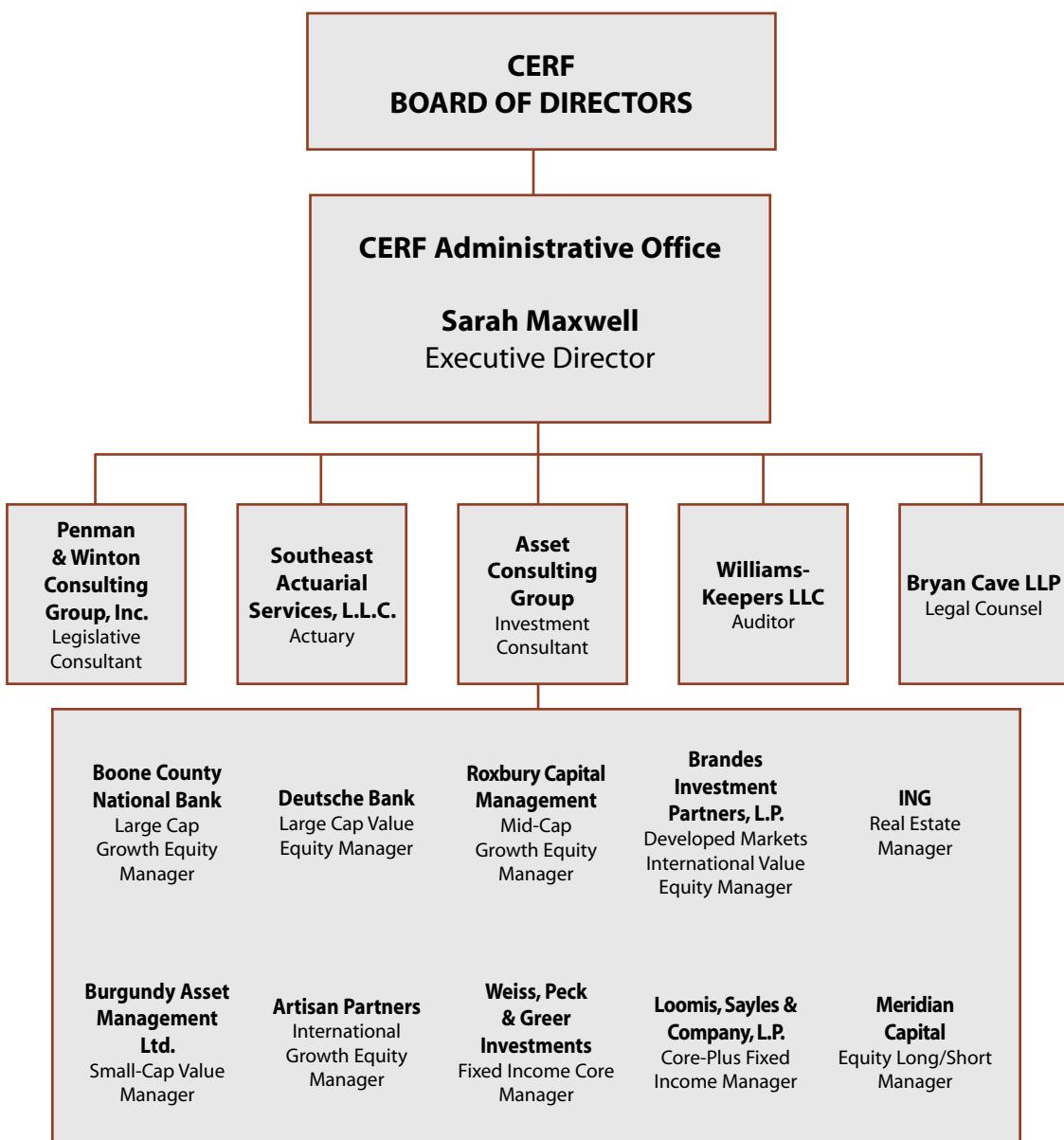
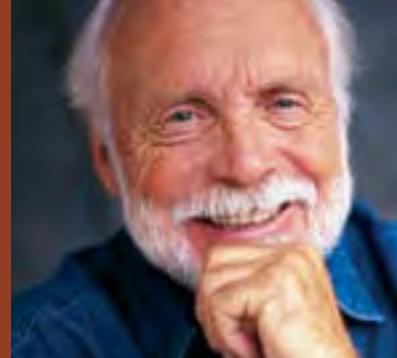
Great-West Retirement Services 100 N. Tucker, Suite 100 St. Louis, MO 63101	Toll-Free: (877) 895-1394 Facsimile: (314) 241-2181 Website: <a href="http://www.gwrs.com">www.gwrs.com</a> * E-mail: <a href="mailto:stephen.richer@gwrs.com">stephen.richer@gwrs.com</a> KeyTalk® Information Line: (800) 701-8255*
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\*User Name and Personal Identification Number required.

## COUNTY EMPLOYEES' RETIREMENT FUND 2006 Board of Trustees

**Conny Dover** – *Board Member*  
**Rosemary Gannaway** – *Secretary*  
**Bettie Johnson** – *Board Member*  
**Dick Jones** – *Board Member*  
**Peggy Kubicek** – *Board Member*  
**Elaine Luck** – *Vice-Chair*  
**Kay Murray** – *Board Member*  
**John Prince** – *Board Member*  
**Jerry Reynolds** – *Board Member*  
**Wayne Scharnhorst** – *Chair*  
**Frank Sifford** – *Board Member*

# ADMINISTRATIVE STRUCTURE



*This Annual Report is distributed for informational purposes only. The full text of actuarial reports, financial statements and audit materials is available upon request pursuant to Missouri's Open Records Law. To request any of these documents, you may send a written request to the plan administrator at:*

CERF Plan Administrator  
2121 Schotthill Woods Drive  
Jefferson City, MO 65101

*The actual language of the statutes and rules and regulations creating and implementing the County Employees' Retirement Fund controls and takes precedence over the material contained herein. In the event a member has any questions concerning the County Employees' Retirement Fund, the member should look to the statutes codified at Section 50.1000, RSMo (1994) *et. seq.* for guidance. Members should not rely on this summary in place of the actual text of the law.*

# Cerf Pension Plan

## Eligibility

Full-time employees (scheduled to work 1,000 hours a year) are eligible to participate in the Pension Plan. Part-time employees become eligible on January 1 or July 1 after completion of 1,000 hours of service in a calendar year, or upon transfer to full-time status.

## Participation

Participation is mandatory for eligible employees. Full-time employees begin participating in the plan immediately upon their date of hire. Part-time employees begin participating once they become eligible.

## Contributions

House Bill 1455 required all participants hired on or after February 25, 2002, to contribute an additional 4% of gross salary to the plan, effective January 1, 2003. A non-LAGERS participant hired prior to February 25, 2002, contributes 2%; a non-LAGERS participant hired on or after February 25, 2002, contributes 6% to the plan. A LAGERS participant hired prior to February 25, 2002, is not required to make contributions; a LAGERS participant hired on or after February 25, 2002, contributes 4% to the plan. Nearly all of the funding for CERF comes from county contributions in the form of fees and penalties.

## Vesting

A participant is vested after eight creditable years of service.

## Prior Service

Employees who were employed on June 10, 1999, and remained employed through January 1, 2000, do not have to purchase prior service. (Specific rules apply in certain rehire circumstances.) Members who terminated vested or retired prior to January 1, 2000, must purchase any service accrued prior to August 28, 1994, in order to include that service in their retirement benefit.

## Early Retirement

Members have the option of retiring as early as age 55 (with eight years of creditable service) and receiving an actuarially-reduced benefit. To be eligible for early retirement, a participant must terminate employment on or after January 1, 2000, and meet other eligibility requirements.

## Cost-of-Living Adjustment

The Board may authorize a COLA each year equal to 100% of the Consumer Price Index, up to 1%, for all members who have been receiving benefits for at least one year on the date the COLA becomes effective. Cost-of-Living Adjustments will become effective on July 1 of each year.

## Survivor Benefits

**ACTIVE EMPLOYEES:** If a participant dies while actively employed, his or her named beneficiary will receive a lump-sum death benefit of \$10,000. In addition, if the participant's death should occur after eight years of service, the surviving spouse is eligible to apply for a 50% spousal benefit.

**VESTED TERMINATIONS:** If a participant is vested but terminates employment prior to becoming eligible to draw a benefit, and then dies before his or her pension begins, his or her surviving spouse can apply for a 50% survivor benefit.

**SINGLE, VESTED MEMBERS:** House Bill 795, effective 8/28/04, allows a refund of contributions to the beneficiary(ies) of a single, vested member who dies on or after August 28, 2004.

**RETIRED MEMBERS:** Depending on which option the member chooses, the designated survivor will receive the appropriate amount of benefits under the survivor option designated on his or her benefit calculation. Members who terminate employment or retire on or after January 1, 2000, have the option to designate someone other than a spouse as the beneficiary of their retirement annuity.

# Cerf Savings Plan

## Eligibility

A member must participate in the CERF Pension Plan in order to be eligible to participate in the CERF Savings Plan.

## Automatic Contributions

Effective January 1, 2000, a member who is not in LAGERS is required to contribute .7% to the CERF Savings Plan. This pre-tax deduction is deposited automatically in the member's 401(a) account.

## Voluntary Contributions

In 2006, participants may contribute up to the lesser of \$15,000, or 100% of their includable compensation to the 457 component of the plan. This limit includes contributions to other 457 plans as well.

## Matching Contributions

Each year, the Board of Directors will determine the amount available for a matching contribution to the Savings Plan (up to plan limits). This matching amount will be added to member accounts for those who earn at least 1,000 hours during the year, or die while employed by the county, and will be deposited into member accounts as soon as administratively feasible after the plan year has ended. Any matching money granted to member accounts will be deposited into the 401(a) portion of their account.

## Vesting

Members are always 100% vested in their automatic and voluntary contributions to the plan and are 100% vested in the matching contributions when they have 5 years of creditable service (from date of hire) or if they die during the plan year.

## Investment Options

A broad range of investment options is available, including the option to pick individual funds or investing through a selected portfolio.

## Making Changes

Participants may change the amount of their contributions on a quarterly basis and can stop deferrals completely at any time. Changes to investment options can be done at any time. Investment changes can be made on a same-day basis through either Keytalk at 800-701-8255 or through the website at [www.gwrs.com](http://www.gwrs.com).

## Payment Options

Payments from the 457 or 401(a) portion of the plan may be made through annuity payments, lump sum, or periodic distributions if the account balance is \$5,000 or more.

## Rollovers and Plan Transfers

Members who have other qualified 457 or 401(a) or (k) plans may transfer or roll over money from those plans to the appropriate component of the CERF Savings Plan. Likewise, if a member leaves employment, he or she may transfer or roll over his or her CERF Savings Plan balance to another qualified plan or IRA.

## Need More Information

For more information on the CERF Savings Plan, please see the contact information on the Administration page of this document or call the CERF Administrative Office for a copy of the most recent Savings Plan brochures.

# Investments

## Overview

The County Employees' Retirement Fund (CERF) investment portfolio is managed in accordance with the plan's investment policy, which clearly defines the guidelines and parameters within which CERF's retirement plan assets are to be invested and monitored.

## Total Portfolio Investment Guidelines and Objectives

CERF's overall investment objective is to maximize return within prudent risk parameters over a long-term time horizon. All investment-related decisions are made in the best interest and for the benefit of the pension plan's participants. CERF has three broad long-term investment objectives: (1) to achieve a return of 1% over the actuarial assumption rate (currently 8%), (2) to grow the portfolio assets at 5% over the inflation rate, and (3) to outperform a blended passive index (blended benchmark) which mirrors the portfolio's asset allocation mix.

CERF's investment policy states specific long term goals (return and risk) for its investment program. The following chart summarizes the pension plan's results compared to the objectives defined by the investment policy:

## Total Pension Fund Performance For Period Ending December 31, 2006\*

	Benchmark	CERF	Objective Met?
• At a minimum, it is the objective of CERF to exceed its actuarial interest rate assumption by 1% on an ongoing basis.**	9.0%	10.3%	YES
• The Pension Fund's annualized total return should equal or exceed the annualized rate of inflation as indicated by the Consumer Price Index by 5%.	7.1%	10.3%	YES
• The Pension Fund's total return should exceed the total return of an index composed as follows: 65% S&P 500 Stock Index 35% Lehman Brothers Aggregate Bond Index	8.0%	10.3%	YES
• The Pension Fund's level of risk, as measured by Standard Deviation, should be consistent with the risk of an index composed as follows: 65% S&P 500 Stock Index 35% Lehman Brothers Aggregate Index	9.8%	10.5%	YES

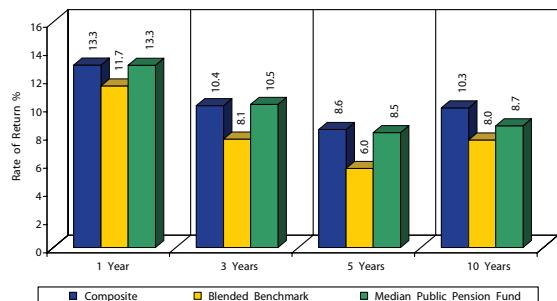
\* All returns shown are for **10 years** ending December 31, 2006.

\*\*The desired objective on a long-term basis is to achieve an excess return over the actuarial assumption by 1%, which is an absolute objective of 9%, net of management fees and transaction costs. Long-term is defined as ten years.

## Total Portfolio Performance

The CERF investment portfolio was valued at over \$230 million at the end of 2006. CERF's investment performance compared to relevant benchmarks for various time periods ending December 31, 2006 is shown in the chart below:

### Total Fund Performance For Period Ending December 31, 2006



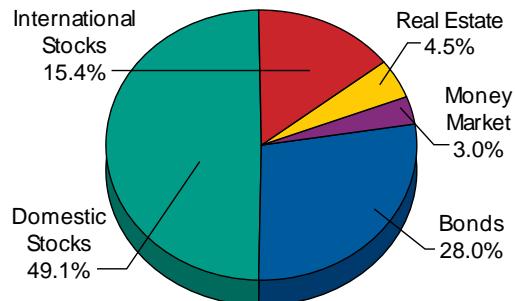
## Total Portfolio Asset Allocation

CERF's asset allocation mix is continually monitored and reviewed to ensure that it is appropriate given CERF's investment objectives and guidelines, the current size of the portfolio, the fund's liability stream and risk tolerances.

The portfolio's current target asset allocation mix is 65% equity, 30% fixed income and 5% real assets (real estate).

The chart below depicts the total pension plan's asset allocation as of December 31, 2006:

### Total Fund Asset Allocation As of December 31, 2006



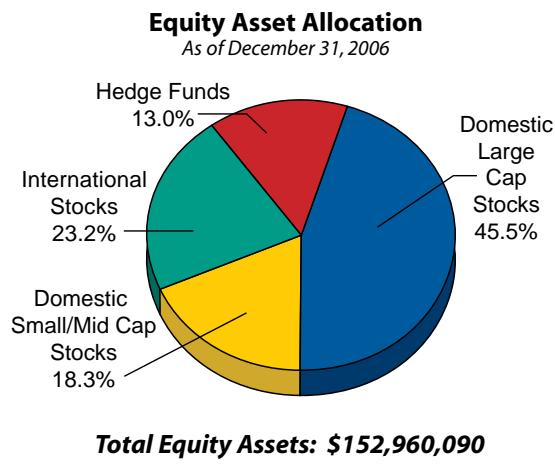
**Total Fund Assets: \$230,342,987**

## Equity Portfolio Guidelines and Objectives

Diversification is key to any long-term investment program. CERF's equity portfolio is diversified by asset class (domestic stocks, international stocks and equity long/short hedge funds), investment size (small, mid and large capitalization stocks), investment style (value and growth stocks), and investment management organization (different money managers are responsible for managing specific pieces of the portfolio).

# Investments

The following chart displays the equity asset allocation for the CERF pension plan as of December 31, 2006:



## Equity Style Allocation

Each equity manager is expected to invest in a well-diversified portfolio of high quality securities. The managers are also given specific performance hurdles which they are expected to exceed over reasonable periods of time and within appropriate risk parameters. Each investment manager who is employed by CERF is given a specific assignment along with detailed guidelines and constraints within which they are expected to manage their portion of the portfolio.

## Fixed Income Portfolio Guidelines and Objectives

Bond or fixed income investments are included in the portfolio to enhance diversification. The fixed income portfolio is intended to represent the broad fixed income markets, with an emphasis on high quality bonds. Like CERF's equity managers, the fixed income managers are also expected to exceed specific hurdles within well defined risk parameters.

## 2006 Year in Review

In 2006 investors in U.S. stocks enjoyed the best market performance since 2003. The S&P 500 Index was up 11 out of the 12 months in 2006, increasing 15.79% for the year. All 10 of the S&P 500 economic sectors closed in positive territory in 2006, led by the Telecommunication Services sector which was up 32.1%. Mid cap stocks also generated strong returns with the Russell Midcap Index posting a return of 15.3%. Small cap stocks were the best performers in the domestic equity market with the Russell 2000 Index returning 18.4%. Value stocks outperformed across all major market capitalizations during the year as large-cap, mid-cap and small-cap growth indices trailed their value counterparts by significant margins.

Overall, U.S. equity returns trailed those of international developed equity markets on both a U.S.-dollar basis and a local currency basis in 2006 with the MSCI EAFE Index posting gains of 26.9%.

The U.S. fixed-income markets came under pressure within the first six months of the year as the Federal Reserve continued hiking short-term rates through its June 30<sup>th</sup> meeting. Markets turned positive in July as investors anticipated the Fed would stop raising interest rates starting with its August meeting. The Fed did in fact pause its tightening cycle, which provided the fuel for bond markets to rally into the end of the year. The Lehman Brothers Aggregate Bond Index generated a return of 4.3% for the year.

During 2006, CERF's portfolio participated in the continued positive performance of the domestic and international equity markets. The pension plan posted a total return of 13.3%, which significantly outpaced the 11.7% return of its benchmark. Over the ten-year period ending December 31, 2006, CERF's 10.3% annualized return ranks in the top 5% when compared to other public pension funds.

## Ongoing Monitoring

The investment consultant assists the Trustees in creating and updating investment policy, developing, monitoring and updating the asset allocation strategy, assessing overall portfolio and individual manager risk, monitoring and evaluating the fund's investment managers, and making recommendations regarding changes or adjustments to the portfolio where appropriate.

The investment managers also provide monthly updates on their portfolios to the consultant and CERF's staff. In addition, each investment manager presents a formal update to the Board of Trustees on an annual basis.

CERF's Board of Trustees and their consultant meet each calendar quarter to review the investment portfolio in detail and to discuss and address specific issues. In addition, interim meetings are held as needed to ensure that the monitoring and oversight process for CERF's investment portfolio is ongoing.

# Actuarial

## PLAN MEMBERSHIP

AS OF JANUARY 1, 2007

Covered Payroll	\$317,301,810
Average Pay per Active Member	\$28,988

## ANNUAL REQUIRED CONTRIBUTION

Unfunded Actuarial Accrued Liability (UAAL)	\$65,138,395
Amortization of UAAL, with interest to mid-year*	\$5,085,127
Normal Cost, with interest to mid-year	\$13,466,581
Reduction in Normal Cost for member contributions	\$5,601,757
Annual Required Contribution as a percent of payroll	\$12,949,951 4.08%

## PLAN ASSETS

Market / Actuarial Value	\$233,046,479
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## FUNDED STATUS

Actuarial Present Value of Accrued Benefits (based on current pay)	\$257,340,988
Funded Ratios	
Accumulated Benefit Basis	91%
Actuarial Accrued Liability Basis	78%

\* The UAAL is being amortized as a level percentage of payroll over a 30-year period beginning January 1, 1995.

County Employees'

# Financial Statements

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2006

### ASSETS:

#### Investments at Fair Value:

Investments	\$ 192,580,996
Net unrealized gains (losses)	33,140,354
Total Investments	\$ 225,721,350

Invested securities lending collateral	\$ 65,799,630
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#### Receivables:

Accrued dividends & interest on investments	735,833
Accounts Receivable – Counties	2,260,123
Accounts Receivable – Members	421,319
Accounts Receivable – Buyback	119,424

Other Assets	8,419
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Capital assets, net of depreciation	4,265,600
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Cash in bank	1,263,491
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Total Assets	\$ 300,595,189
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### LIABILITIES:

Accounts payable	\$ 399,548
Accrued defined contribution plan contribution	1,070,115
Other accrued expenses	130,392
Deferred revenue	149,025
Collateral for securities on loan	65,799,630

Total Liabilities	\$ 67,548,710
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Net Assets Available for Benefits	\$ 233,046,479
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# Retirement Fund



**STATEMENT OF CHANGES IN NET ASSETS  
AVAILABLE FOR BENEFITS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**ADDITIONS:**

**Contributions:**

County Receipts	\$19,483,700
Members, regular	5,888,992
Members, purchase of prior service	63,879
Total Contributions	<u>\$25,436,571</u>

**Investment Income:**

Interest Income	3,464,188
Dividends	2,250,722
Net appreciation in fair value of investments	20,646,101
Total Investment Income	<u>26,361,011</u>
Less: Investment expenses	(1,227,791)

Net Investment Income	<u>25,133,220</u>
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Securities lending income	3,824,237
Less expenses	(3,759,591)
Net securities lending income	<u>64,646</u>

Total Additions	<u>50,634,437</u>
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**DEDUCTIONS:**

Benefits paid directly to participants	11,051,485
Refunds of member contributions	1,293,448
Defined contribution plan matching contribution	1,070,115
Administrative expenses	1,894,999
Total Deductions	<u>15,310,047</u>
Net Increase	35,324,390

**Net Assets Available for Benefits**

Beginning of Period	197,722,089
End of Period	<u>\$233,046,479</u>

# CERF Demographics

(Data as of December 31, 2006)

Active Participants	10,946
Retired Members and Beneficiaries	2,264
Terminated Vested Participants	1,340
Sum of Death Benefits (since inception)	\$ 2,679,948
Sum of Remaining Buy Back Balances	\$ 119,424
Sum of Benefit Payments, Taxes and Buy Back Payments (since inception)	\$ 60,430,218
Average Gross Monthly Benefit	\$401.44

## Summary of County Contributions for 2006

Assessor Late Fees	Collector Merchant License Fees	Collector Delinquent Fees	County Interest	Employee Contributions	County Contributions	Recorder Document Filing Fees
\$4,351,472	\$1,219,171	\$6,318,665	\$142,635	\$5,878,444	\$560,101	\$6,888,189

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**County Employees' Retirement Fund**  
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Jefferson City, MO 65101